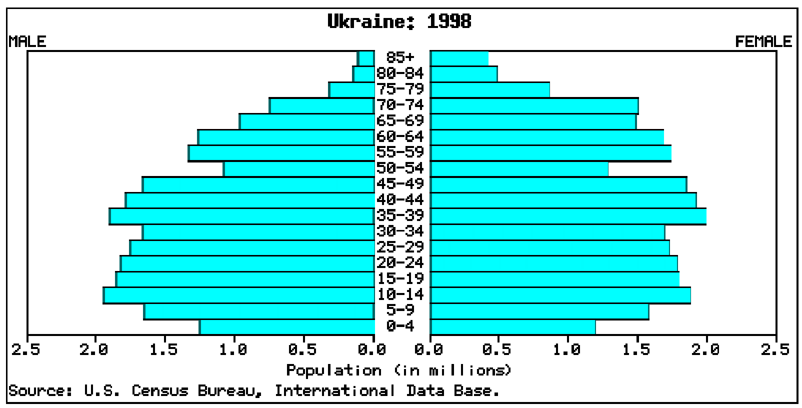
Ukraine

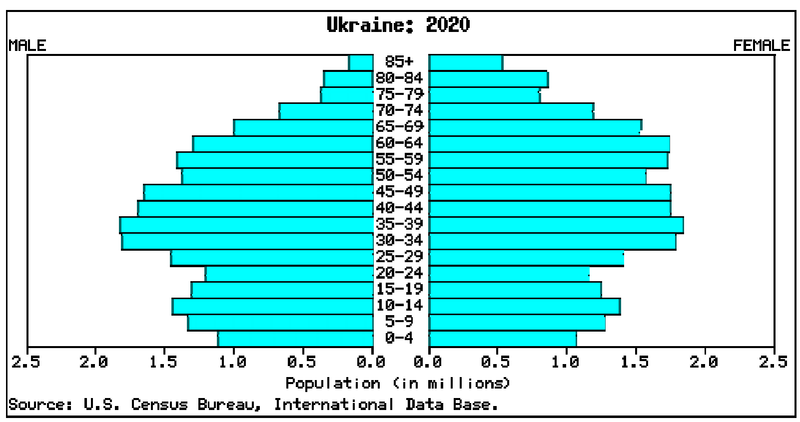
Summary of Current System

	Pillar 1	Pillar 2	Pillar 3
Type:	♦ Defined-benefit		
Participation:	♦ Mandatory		
Management:	♦ Publicly-managed		
Financing:	♦ PAYGO		
Coverage:	♦ Employed citizens and special provisions for victims of Chernobyl disaster		
Eligibility:	♦ Age 60 years (men) or age 55 (women) and fulfilled minimum contribution period		

Challenges Facing Pension System

- ❑ Demographic shifts
- ❑ Contribution evasion
- ❑ Payments arrears





Summary of Current Pension System

The current pension system in Ukraine was established in January 1992. It is financed on a pay-as-you-go-basis (PAYGO) and covers all workers. The system is controlled by three bodies, the Ministry of Communications, the Ministry of Social Protection, and the Pension Fund. The Pension Fund collects contributions from employers and employees; the Ministry of Social Protection determines the amount of pension benefits for each individual, which is then paid out by the Ministry of Communications.

The social insurance benefits are provided according the following categories: (1) old age, (2) invalidity, (3) survivorship, and (4) years of service, (5) social and (6) partial pensions. Mandatory contributions are made primarily by employers: 37 percent of payroll is contributed by employers and employees pay 1.0 percent of their earnings. New contribution rates for self-employed and lawyers were increased to 33 percent in February 1996.

An invalidity pension is based on the category in which the individual has been assigned. Survivorship pension eligibility is acquired by those unable to work following the death of the wage earner. The years of service pension is distributed as a result of early retirement due to hazardous employment. Social pensions provide benefits for those unable to sustain adequate contributions for a contributory pension. Partial pensions, (no less than 50 percent of the minimum pension), are distributed to individuals that have not fulfilled the required number of years of employment.

Old-age benefits begin when an individual has reached the retirement age and has fulfilled the minimum contribution period. For men, this occurs at age 60 and 25 years of employment, and for women at age 55 and 20 years of employment. If employed in hazardous occupations, the retirement age is reduced by five to ten years earlier.

Ukraine

SELECTED INDICATORS		
	Year	
Demographic	*1998*	*2020*
Total Population (in thousands)	50,125	46,061
Life Expectancy at Birth (Years)	65.84	72.97
Total Fertility Rate (Child Born per Woman)	1.34	1.53
Age Dependency Ratio (percent)	32.6	37.4
	1980-2000	*2000-2020*
Average Annual Rate of Population Growth (percent)	-1.1	-7.0

Source: U.S. Bureau of the Census. International Data Base.

Economic	*1996*
GNP (PPP in billions)[1]	113.1
GNP Average Annual Growth Rate, 1995-1996 (percent)[1]	-9.9
GNP Per Capita (in PPP)[1]	2,230
Inflation Rate (percent)[2]	80.2
Labor Force Participation Rate (percent)[3]	50.1
Unemployment Rate (percent)[4]	1.0

Source: [1]World Bank; [2]IMF; [3]International Labour Office; [4]Central Intelligence Agency.

Pension	*1997*
System Dependency Ratio, 1996 (percent)	45.0
Employee Contributions for Pensions (percent of earnings)	1.0
Employer Contributions for Pensions (percent of payroll)	37.0
Public Pension Spending as % of Government Spending	n/a
Public Pension Spending as % of GDP, 1996	13.0

Source: Central Intelligence Agency; World Bank.

Generally, pension benefits amount to 55 percent of the average wage (which is based on average earnings in the last two years or best five consecutive years of employment), plus 1 percent of wage for year in excess of the minimum years of employment. The maximum pension is 75 percent of the average wage while the minimum pension is 200 percent of the minimum wage. Periodic adjustments to pension benefits are made according to changes in the cost of living.

Challenges Facing Pension System

Over the last five years, the Ukrainian pension system has been under much pressure due to economic instability. Pension fund contributions have been subsidizing other government entities, and by July 1997 the pension fund was owed approximately $1 billion. These arrears have resulted in a backlog of pension benefit distribution of at least two months.

An additional burden on the pension system is the country's demographic characteristics. In 1990, 19 percent of the population was over 60 years old and this proportion is expected to increase to 25 percent by 2020. Residents in Ukraine are also living longer. Life expectancy at birth was 66 years in 1998, and according to projections for 2010 it expected to increase to 69 years.

In 1991, the introduction of preferential benefits, especially following the Chernobyl clean-up process, led to many pensioners accepting early retirement benefits. The following five years displayed an 11 percent increase in retirees (from 13.1 million to 14.5 million). However, the number of individuals in the workforce has decreased. By December 1995, the ratio of retirees to current workers was 0.71.

Pension contributions and payroll taxes are a substantial percentage of earnings and this has increased the level of contribution evasion and reduced the formal sector wage base. The shadow economy has become quite prominent, as employers are willing to find alternative ways to fulfill payroll requirements while avoiding the high taxes.

Pension Reform Efforts

Papers proposing individual private accounts and the introduction of a partially or fully-funded scheme have been drafted, but no pension reform legislation has been passed by the government. There remains much debate and disagreement as to the type of pension system that would be most beneficial in providing adequate benefits and minimizing increases in spending.

In April 1998, the Ukrainian President outlined proposed changes to be implemented as part of the reform effort. These incremental reforms will begin with the introduction of a phase-in increase in the minimum pension benefit for low-income recipients. This will be followed by a new indexation mechanism based on average wage and consumer prices, which is intended to keep pension benefits in line with economic fluctuations.

Pension Reform Efforts by Pillar

	Pillar 1	Pillar 2	Pillar 3
Papers issued on state of pension systems	✓		✓
Formulation of proposals	✓		✓
Development of draft legislation	✓		✓
Introduction of legislation by parliament			
Review of legislation by parliament			
Passage of legislation by parliament			
Implementation of legislation			